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A year since the February 2021 power crisis in Texas, hear how renewable energy hedge markets have changed

ERCOT lessons include new ways to incentivize generators to stay online when their electrons are most needed

BOSTON, USA, February 28, 2022 /EINPresswire.com/ -- Financial hedging tools used to manage clean energy generation and procurement risk have seen major changes in the past year, after the 2021 deep freeze in Texas upended power markets and resulted in outsized gains and losses for many in the industry.

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> *Lee Taylor, REsurety CEO*

In an effort to limit their risk during such extreme weather events, many clean energy power producers have returned their focus to traditional as-generated power purchase agreements where operational shutdowns during price spikes are typically permitted with limited or no penalties.

The result could be a reduction of demand for clean energy from financially-motivated buyers, as well as a reduction in grid resiliency, warns Lee Taylor, CEO of REsurety, who will speak at the Solar + Wind Finance & Investment Summit next Monday in Scottsdale, Arizona. "If project shutdowns during periods of high demand have a limited impact on a project owner, there will be no incentive for resiliency, " he says.

Taylor is not alone in that view. Jay Bartlett of Resources for the Future wrote last March in the aftermath of the Texas deep freeze, blackouts, and $9,000-a-megawatt-hour power rates:

"The Texas power crisis has shown how different sales and hedge structures create very different levels of incentives for a wind project to generate during times of scarcity. While most attention focuses now on projects that either sustained great losses or earned windfall profits, more alarming over the long term are projects that were financially unaffected by the crisis. Those generators may have had little motivation to produce power during a time of great need. Appropriate incentives may not guarantee power supply—clearly, they did not last month—but aligning incentives between wind projects and system needs will better promote beneficial investments and operations. As wind and solar comprise an increasing percentage of power generation, well-designed hedge structures could prove instrumental to power system reliability."

One solution is a hybrid between historically metered generation and proxy generation-based settlement methods. Future offtake contracts, such as vPPAs, can settle on metered generation but proxy generation (which represents what a project should have produced assuming normal operations and project availability) is utilized to calculate the financial impact of project operations. If that impact exceeds a materiality threshold, damages are owed by the project up to a cap. The materiality threshold and cap on damages would be agreed to by the project and the offtaker.

"The goal is to preserve the best of both worlds," says Taylor. "Projects understandably don't want to bother with calculating proxy generation when the project is operating normally, and after winter storm Uri, projects are no longer comfortable with uncapped financial exposure to operations. This contracting method addresses both of those concerns, while preserving the offtaker's interest in quantifying the financial cost of a project's operational performance, and having some recourse when that cost is material."

Taylor will elaborate during the panel, "Focus on Potential Gamechangers 1: Implementing Changes to the Hedge Market," at 2:45 pm Mountain Time on Monday, March 7. Moderated by James T. Tynion III, Partner, Morgan, Lewis & Bockius, the panel will also feature Andrew Ehrlickman, Vice President, Brookfield Asset Management. The session promises to address how the financial fallouts from extreme weather events "have completely restructured the entire hedge industry by exposing huge risks lurking in the periphery."

The speakers will provide a deep dive into the long-term effects of recent freezes, heat waves, and storms; the changing risk appetites of parties and updated valuations in hedge calculations; and new hedge structures that are emerging. Also on the agenda: How to value weatherization, impacts on tax equity, and the appeal of merchant projects.

REsurety provides market intelligence, asset insight and risk management tools for clean energy sellers, buyers, investors and advisors. REsurety is a sponsor of the Solar + Wind Finance & Investment Summit, and will be at Table 96 where meetings can be scheduled. For media interviews with CEO Lee Taylor in person or by phone, please contact Allison Lenthall, allison@renewcomm.com, 202-322-8285.

About REsurety
REsurety is the leading analytics company empowering the clean energy economy. Operating at the intersection of weather, power markets and financial modeling, we enable the industry's

decision makers to thrive through best-in-class value and risk intelligence, and the tools to act on it. For more information, visit www.resurety.com or follow REsurety on LinkedIn.

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